



Dairy Sales May Rebound

We are expecting a good quarter for SADAFCO with earnings rising +20% Y/Y, benefiting from Mlekoma contribution. Notably, the Company may be regaining market share from Almarai across long-life dairy. Discounting appears to be easing which could translate to modest gross margin improvement. Shares are trading near 52-week high, possibly on strong earnings surprise. Maintain Hold and SAR 107 target price, representing 9.5x 2019E EV/EBITDA.

SADAFCO regaining market share

Competitor Almarai announced lower volume of UHT sold indicating that SADAFCO is recapturing market share. In our view, this is a positive signal and marks a turnaround in milk category. We project +14% topline growth to SAR 468 mln (note: 1Q18 does not include Mlekoma).

Discounting may have eased

Initial impact of Mlekoma integration is expected to ease providing some gross margin benefit. Further, according to Almarai UHT prices have started to edge higher, suggesting that deep discounting strategy could be winding down. As a result, we project modest improvement in gross margin to 34%.

Cost control to drive earnings higher

Recovering topline, normalizing integration costs, backward integration and cost control should propel earnings higher to SAR 60 mln (+20% Y/Y).

F&B market may be stabilizing

With the holy month of Ramadan coinciding in the quarter, improvement in F&B market could have meaningful impact. Almarai's market studies indicate that most F&B categories are growing which should be positive for SADAFCO. 1Q19 labor numbers show first quarterly gain in foreign workers since 2016, meaning that consumption could be higher.

SADAFCO (SAR mln)	1Q19E	1Q18	Y/Y Chg	4Q18	Q/Q Chg
Revenues	468	410	14.0%	464	0.9%
Gross profit	160	134	19.8%	161	-0.8%
Gross margin	34.2%	32.6%		34.8%	
Operating profit	61	51	20.8%	63	-2.0%
Operating margin	13.1%	12.4%		13.5%	
Net income	60	50	20.2%	60	0.2%
Net margin	12.9%	12.2%		12.9%	
EPS	1.85	1.54	20.2%	1.85	0.2%

**Note: SADAFCO yearend is March 31st

SAR 107

12-Month Target price

Hold

Recommendation

Stock Details		
Last Close Price	SAR	124.60
Upside to target	%	(14.1)
Market Capitalization	SAR mln	4,050
Shares Outstanding	mln	33
52-Week High	SAR	124.80
52-Week Low	SAR	70.00
Price Change (YTD)	%	24.1
3-Mth ADTV	thd	106
EBITDA 2019E	SAR mln	304
Reuters / Bloomberg	2270.SE	SADAFCO AB

SAR mln	2018	2019E	2020E
Revenues	1,813	1,867	1,909
Gross Margin	32%	33%	33%
EBIT	222	233	252
Operating Margin	12%	13%	13%
Net Income	216	230	250
Net Margin	12%	12%	13%
EPS (SAR)	6.73	7.05	7.65

Price Multiples			
	2018	2019E	2020E
P / E	18.5x	17.7x	16.3x
EV / EBITDA	12.0x	11.4x	10.6x
P / S	2.2x	2.2x	2.1x
P / B	3.0x	2.8x	2.7x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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